

EXHIBIT 24



DRUG CHANNELS

Expert Insights on Pharmaceutical Economics and the Drug Distribution System



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THURSDAY, JANUARY 15, 2009

Pharmacy Profits and Wal-Mart

Fair warning: This post will make some people quite uncomfortable.

In *Who Pays for Prescription Drugs?*, I showed you how the payer for prescription drugs has changed over the past 40 years. The next logical questions: How much money do pharmacies make from different payers? How will a dominant government payer influence pharmacy profits? And what happens as competitive pressures increase?

I only have data about independent pharmacies in 2007, but the answers may surprise you. Here's what I found:

- Medicaid remains the most profitable third-party payer for independent pharmacies.
- Despite what you may have heard, gross margins on third-party insurance business are growing at independent pharmacies.
- The generic price war that was triggered by Wal-Mart is squeezing pharmacy margins on cash-pay consumers. While \$4 generics may be good news for uninsured/underinsured patients, they are bad news for pharmacy owners.



THE FACTS

The data in the table below come from the NCPA 2008 Digest, which summarizes self-reported survey data from a sample of independent pharmacy owners.

Payer	Average Pharmacy Gross Margin on Prescriptions		Change (basis points)
	2006	2007	
Medicaid	18.8%	20.3%	+150
Medicare Part D	16.0%	18.9%	+290
Other Third-Party Programs	16.6%	16.1%	-50
Non-Third-Party	38.1%	42.4%	+430
Overall Pharmacy Industry	21.3%	22.1%	+80

A few observations:

- Margins for all three categories of third-party-paid prescriptions increased in 2007 versus 2006.
- Medicaid prescriptions remain more profitable than either Medicare Part D (+160 basis points) or private third-party payers (+120 basis points). This is something to keep in mind the next time you hear that half of all independent pharmacies will close if Medicaid reimbursements drop by 2 percent.
- Gross margins on Part D business jumped by 270 basis points in the second year of the program. The self-reported gross margins of 18.7% in the NCPA Digest correspond almost exactly with the 18.5% reported by the OIG last year. See *Pharmacy Profits & Part D* for details.

THE WAL-MART EFFECT

Look at the category labeled "Non Third Party" in the table above. This category includes primarily cash-pay consumers, i.e., people who pay the full cost of their prescriptions out of their own pocket.

In 2007, average pharmacy margins from these uninsured/underinsured people were 42.4%, a decline of over 1400 basis points compared to 2006.

I'll give you one guess why this is happening.

Wait for it.

Yes, you got it – it's the generic price war!

These data confirm my supposition that the price war started by Wal-Mart in September 2006 will reduce pharmacy profits from uninsured/underinsured customers. And from the department of tooting-one's-own-horn (ahem), this margin drop is consistent with the predictions that I made at the time that Wal-Mart announced its \$4 generics program in Wal-Mart's Generic Pricing Will Trigger Big Changes and Reconsidering Wal-Mart (but just a little).

In September 2006, I wrote:

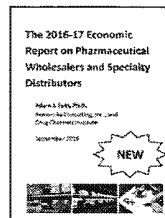
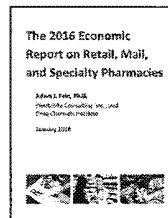
<http://www.drugchannels.net/2009/01/pharmacy-profits-and-wal-mart.html>



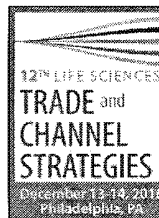
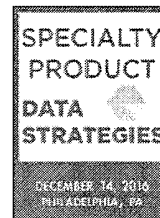
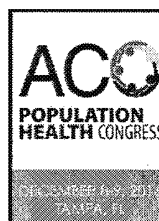
Drug Channels is written by Adam J. Fein, Ph.D. Dr. Fein is President of Pembroke Consulting, Inc. and CEO of Drug Channels Institute. Read More...

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"Wal-Mart clearly struck a powerful chord with people. They are signaling their intent to remove profits from the retail pharmacy industry, to the ultimate detriment of pharmacy chains and independents. I believe that we'll look back and acknowledge September 21, 2006, as a turning point in retail pharmacy's evolution."

CONSUMERS WIN

Today, many independents will match prices to avoid losing a customer (and to avoid changing their U&C rates). Although they may deny the existence of price competition, Walgreens (WAG) and CVS Caremark (CVS) are also feeling the pressure on pharmacy profits.

Cash-pay customers love the generic price wars, which offer the most value for uninsured and under-insured patients. Price shoppers are fans, too, given the wide and apparently persistent variations in pharmacy prices for many common, high volume generics. (See *The Price Might Be Right*.)




Keep in mind that despite the drop in cash-pay margins, independent pharmacies also earned 2X margins from non-third-party scripts compared to third-party scripts. This differential reflects our health care system's "soak the poor" approach, whereby cash-pay customer pay list price while those of us with insurance benefit from our pooled negotiating power.

Will this pattern continue in 2008 and beyond? Will PBM margins on third-party business trend downward as payers get more information about true profitability? Will direct-to-payer, cost-plus deals trigger another margin takedown?

Stay tuned, dear reader.

=====

Many readers have written to me asking about recent news stories – especially the UPS/Merck deal and CVS Caremark's 2009 outlook. I'll try to catch up on these stories in Drug Channels next week.

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Print Posted by Adam J. Fein, Ph.D. on Thursday, January 15, 2009 14 Comments
Labels: Costs/Reimbursement, Generic Drugs, Medicare Part D, Pharmacy, Pharmacy Economics

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Avella Specialty Pharmacy tops list of fast-growing private pharmacies *Pharmaceutical Commerce*
Cardinal Health buys North American rights to Navidea product *Columbus Dispatch*
Industry Insiders Estimate EpiPen Costs No More Than \$30 *NBC News*
The EpiPen Drama Shows What's Wrong With How Drugs Are Priced *Bloomberg Business Week*
Mylan's Generic EpiPen — A Price Break Or Marketing Maneuver? *Kaiser Health News*
The Insurance Rip-Off At The Heart Of The EpiPen Scandal *Forbes*
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14 Comments

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Anonymous • 8 years ago
Adam,

I have a question about \$4 generics. I thought that most, if not all, third party contracts included a "lower of" clause that required the pharmacy to charge the third party payer the lower of the contract price or its usual and customary price. Wouldn't this mean that pharmacies offering \$4 generics to cash customers would also have to offer these prices to third-party payers? For pharmacies with 90%+ third party prescription sales, wouldn't this be a major reason to not offer \$4 generics? If this is true, why have so many chains jumped on the \$4 generic bandwagon?

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Adam J. Fein • 8 years ago
You are correct but there is a twist.

Third-party contracts usually will not reimburse a pharmacy at a level above the pharmacy's "usual and customary" (U&C) price.

Therefore, the chains require some sort of membership fee to get discount generics, which means that the price charged to "club members" is not U or C. In addition, a pharmacy that offers to match a competitor's price has not adjusted its U&C.

In contrast, Wal-Mart unilaterally lowered its U&C for the generic drugs on its \$4 list.

There is a lengthy discussion of this issue in the comments below *The Price is Right*.

Adam

<http://www.drugchannels.net/2009/01/pharmacy-profits-and-wal-mart.html>

340B Spotlight: Retail pharmacies continue to expand the 340B program *The Catalyst*

TESTIMONIALS

<< 11 12 13 14 15 >>

"Drug Channels stands out as must-read. Adam's posts are consistently topical, insightful, and entertaining."

Daniel Kinney
Vice President, Information Services and Advanced Analytics, IntegriChain, Inc.

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scripkill • 8 years ago

In resposne to the previous post - yes, you are correct about U&C vs what is sent to insurers. Several insurers have sent nastygrams threatening to revoke contracts. If they uncover lots of claims they believe are purposefully marked up. I do see their point although it's obvious that was not the long-term intent of the \$4 plan. It was meant for impoverished or under insured persons. So, many pharmacies have created an 'opt in discount program' rather than reduce their 'U&C' so insurers can't say \$4 is the 'everyday U&C price' even though for the most part it is - loophole fighting loophole. Wal-Mart is not doing this however, so their millions of insurance claims are at the \$4 price. It has definitely influenced the MAC insurances use for reimbursement (whihc is derived from national or geographical average price). I've seen lots of claims for generics go from mid \$20 range down to \$4.25 or so (ironically just above \$4, since some others still send the higher U&C). This will continue to drive down or at minimum continue to slow margins from ALL third party payors. I will be eager to see the 2008 data!

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Anonymous • 8 years ago

Question: On the pharmacy margin that you listed above, is that just for generics, or are brands included.

I can't imagine that pharmacies are making 20% on brands, or even something remotely close.

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Adam J. Felt • 8 years ago

Re: previous comment

The data show the blended margin for generics and brands. Obviously, percentage margins are quite different even if dollar margins are similar. See the data in Pharmacy Profits & Part D for a numerical example in Part D.

Adam

Share



Mr. MedSaver • 8 years ago

Adam,

Whenever you blog about Wal-Mart's \$4 program, I'm amazed that you continually leave out this one indisputable fact: Wal-Mart generally rapes cash-paying customers on non-\$4 generics. For example, Wal-Mart's price on leflunamide (generic Arava) 20mg #90 is currently \$502.68. By contrast, Costco charges \$62.92. Here's another example: omeprazole 20mg #90 is a ridiculous \$240.00 at Wal-Mart! Obviously, they're trying to lure in cash customers to A) overcharge them on other drugs and B) keep them waiting in the store to purchase other products.

Share



Anonymous • 8 years ago

You are correct but there is a twist.

Third-party contracts usually will not reimburse a pharmacy at a level above the pharmacy's "usual and customary" (U&C) price.

I am totally agree

Drug Intervention Virginia

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Anonymous • 8 years ago

You know what? As an independent pharmacy owner, I am ready to stick out

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The Dose (NCPA)

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Healthcare Economist

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Weekly Roundup 10.28.16



Matthew Herper (Forbes)

EpiPen Competitor Auvi-Q To Return To Market, Promising Lower Costs For Patients



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PCMA

this price war the big chains want to wage against each other. I refuse to participate, while making exceptions for those customers of mine who I know for a fact can't afford their meds without my help.. I'd like to believe that ALL independents still do that, and I think I would be right.
I hope the chains keep playing this game. One day (soon, I hope), their investors and shareholders will realize that although sales have been going up, profits are not!! Of course, these would be the same investors and fund managers that were fooled by a certain Mr. Madoff for a very long time.. so I may be waiting a while.. oh well, as long as they end up with the same fate as their investments with Madoff did, I'll still be happy .

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Anonymous · 8 years ago

Adam,
Isn't this how the wholesalers began to get in trouble by giving the buy-side away through WAC Minus pricing? Look what happened to the smaller regionals as a result of that...they're now owned by the "Big Three".

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Anonymous · 8 years ago

Adam,

Any comments to the draft FDAAA guideline recently released for standardized numerical identifier(SNI)?

Not much content for the hype and wait...

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Anonymous · 8 years ago

Adam,

The average pharmacy has about 6-7 % cash paying customers. If 50% of that is generics then it is a very small amount with regard to the total sales picture. I don't think the "generic war" is going to make or break anyones bottom line. Why don't you do a little research on how is WalMart fairing with its staff issues and keeping pharmacists and other pharmacy employee from leaving for other employers.

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Anonymous · 8 years ago

For the independent pharmacy owners, what would be your advice for a pharmacist trying to open up an independent pharmacy. Can they even make it in leu of the price war.

^ | v . Share >



Anonymous · 7 years ago

Isn't this how the wholesalers began to get in trouble by giving the buy-side away through WAC Minus pricing? Look what happened to the smaller regionals as a result of that...they're now owned by the "Big Three".
<http://www.thepharmacyone.com/>

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Anonymous · 6 years ago

War Mart/Target/Grocery chains do not mind making low/no profits on pharmacy drugs, these are just services that drive people into the store. As a matter of fact, since offering \$4 generics, Wal-Mart/Target/Grocery chains make more profit in the front-end since more people are coming into the stores. I think Target guest comes in to the store 17 times more into the store when they get their prescription at Target. So now that means, if the average customer spends about \$75 per visit, and their medication cost is \$4 x 12(Pharmacy makes no profit for refills for the patient for the year), they still

end up with \$75 x 17 dollars more than if they didnt come in.


It's a win-win for the big 3. Really bad for the Pharmacy profession and business.

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
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 HealthcareRancher — Great information!! So not counting the insurer, the PBM (who never sees ...


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 Adam J. Fein — Exactly!


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 monomani — the movie should be called... "Follow the contract"

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 Jeanne JM — I believe you are correct. But, non-preferred pharmacies maintain DIR fees on ...

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